

Use of School Food Service Funds

Food service accounts are required to comply with generally accepted accounting principles, including the annual budgeting process. However, there are certain provisions of the National School Lunch and Child Nutrition Programs that differ from other funds, programs, and accounts. Special provisions that should be considered when budgeting for the food service program follow:

All revenues received by or accruing to the school food service must be used only for the operation and improvement of the food service program. Revenues include, but are not limited to, receipts from:

- operations of the National School Lunch, School Breakfast, and Afterschool Snack Programs;
- a la carte/special sales programs;
- earnings on investments;
- other local revenues; and
- Federal reimbursement received by or accruing to school food service.

Food service account funds may not be used for expenditures that are not directly related to the food service operation although they are part of the School Food Authority (SFA) general fund.

Any positive balance remaining in the food service account at the end of the school year must be carried over to the next school year as a beginning balance in the food service account.

To maintain the nonprofit status of the National School Lunch and Child Nutrition Programs, the fund balance or net cash resources of the food service account must not exceed three month's average expenditures. If an excess balance should occur, the SFA must immediately take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance would be reduced within a year. The plan must be submitted to the South Carolina State Department of Education, Office of School Food Services and Nutrition. Since program funds may be used only for program purposes, an excess balance could be reduced by improving the quality of food served; reducing the prices of meals served to students; or purchasing needed supplies, services, or equipment.

To determine if an excessive balance exists, you may complete the following calculations (see example in Table 1 Section 6):

A. Expenditures minus Value of Commodities Received/Used minus Depreciation equals Adjusted Expenditures

Table 1 Section 6 Example of Excessive Balance Calculation

Net Cash Resources Calculation	
School Food Authority: Palmetto School District	School Year: 2002-2003
Expenditures	\$559,431.13
Minus Commodities	33,109.88
Minus Depreciation	5,500.00
Adjusted Expenditures	\$520,821.25
Adjusted Expenditures ÷ 3 (maximum allowable balance amount)	173,607.08
Minus Operating Balance	123,187.71
Comparison Amount *	\$50,419.37

*A negative number represents the excess balance amount and a plan to reduce the balance must be submitted.

Expenditures

All food service expenditures should be classified as food, labor, and other. Expenditures should be documented by itemized receipts or invoices. To be allowable, expenditures must be necessary and reasonable for proper and efficient administration of the programs and conform to any limitations or exclusions set forth in program regulations.

The types of allowable and non-allowable expenditures that may be made by SFAs operating the food service programs under the National School Lunch Act are listed below. For specific expenditures not listed or for further interpretation of those listed, contact the State Office.

Allowable Expenditures

Food purchases and costs directly related to the storage, handling, processing, and transportation of food

Labor, which includes payments for labor and other services directly related to operating the school nutrition programs—this includes the employer's share of retirement, social security, insurance payments, and fringe benefits after the state allocation to the district has been exhausted

Other supplies and expendable equipment (under \$5000) used directly in the operation of the school food service—this includes items that must be replaced from time to time, such as pots and pans, serving trays, dishes, glassware, silverware, linen, mops, brooms, cleaning supplies, etc.

Non-expendable items (over \$5000), generally classified as movable property, and used directly in preparing, storing or serving school meals—this includes ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, tables, chairs, hot water heaters, and other equipment. This category may include such items as charges for installing and connecting equipment to utilities in the building in which the program is operated, as well as service for maintenance and repair of equipment.

Training of school food service employees

Travel on food service business such as workshops, conferences, and training programs

Memberships, subscriptions, books, and audiovisual equipment used to benefit food service

Rental of food storage facilities or equipment as required for program needs

Computers, cash registers, adding machines, typewriters, communication equipment, and other office equipment used exclusively for the food service operations

Printing and reproduction equipment or services

Employee information publications

Automotive equipment used exclusively in transporting food for program purposes

(Allowable Expenditures continued)

Services, such as pest control, trash removal, security, and janitorial

Utilities, when accounted for separately (actual costs) by using separate meters

Advertising for the recruitment of personnel and for the disposal of scrap or surplus materials

Promotional materials, exhibits relating specifically to the program, and advisory councils related to parental and student involvement

Indirect costs for the current school year at the assigned indirect cost rate for the school district

Non-allowable Expenditures

No income accruing to the food service program may be used to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets. However, paint and decorator items would not be considered capital expenditures. Only those improvements that materially increase the value or life of the building would be considered capital expenditures.

Contributions and donations

Entertainment, amusements, social activities, gratuities, and related activities

Interest on borrowings

Rent or usage fees for district-owned facilities

Cafeteria monitors—School food service funds may not be used to pay salaries for monitoring. However, food service personnel may have monitoring duties assigned to them as part of their other food service responsibilities.

Custodian and maintenance costs which are already included in the district's formula for indirect cost

Indirect cost expenses from prior year or years, and/or those that exceed the assigned rate

Any direct costs that are included in the indirect cost rate for food service based on the SA approved allocation plan

Questions Answers

1. Q: What are the limitations on the use of school food service funds?

A: All revenue received by or accruing to school food service may only be used for the operation or improvement of the food service program. This includes earnings on investments and means that if food service funds are used totally or in part for investment purposes, then the interest earned from such investments must accrue to the food service account and be used only for authorized program purposes.

2. Q: Can food service funds be used to pay salaries for custodial and maintenance workers?

A: No. These services are accounted for in the State's indirect cost formula for SFAs.

3. Q: Can food service funds be used to pay for publishing the free and reduced-price guidelines at the start of school?

A: Yes, but this is not required in that the SFA's responsibility is fulfilled by disseminating the press release to the media as a public announcement. The SFA does not have to pay to have it published.

4. Q: Can a SFA charge the food service account rent or usage fees for cafeterias, kitchens, or storage facilities?

A: The SFA is not allowed to charge rent to the food service program for SFA-owned facilities.

5. Q: Can food service funds be used to provide meals for adult visitors attending a meeting in the SFA or to purchase meals in a commercial restaurant for the visitors?

A: No. Food service funds are to be used to provide meals for children. Adults should pay a

sufficient price to cover the cost of their meals or the cost should be paid from SFA funds other than food service funds.

6. Q: Can food service funds be used to pay for attorney's fees?

A: Food service funds may be used to pay attorney's fees under certain conditions. Consult the State director when the question arises.

7. Q: Can food service funds be loaned to the SFA? If so, must interest be paid and at what rate?

A: Food service funds may be loaned to the SFA on a short-term basis (a school year). The SFA should pay interest at the prevailing loan rate. The loan agreement should contain such stipulations as the purpose, interest rate (simple or compounded), the repayment schedule for the principal and interest, and any penalties for late payment.

8. Q: If the food service department has purchased a Certificate of Deposit (CD), may it be cashed in before the maturity date in order to loan the money to the SFA?

A: Yes; however, the SFA must pay any penalties associated with this action. The payment of interest at current rates for CDs would be in order.

Questions Answers

9. Q: What records must be maintained for loans to the SFA?

A: The original loan agreement, duly executed, and the payments for the principal and interest must be maintained and be on file for the duration of the loan plus the retention period required for all State/Federal records.

10. Q: Is it allowable to use nonprofit school food service funds to pay for an awards dinner at a local restaurant to recognize the achievements of food service staff in areas such as increased participation, expanded nutritional information and education, or increased productivity?

A: Factors affecting the allowance of school food service funds for activities as described above must meet certain criteria. In a general sense, the activity must be part of the SFA's established practice, be reasonable and necessary, and be consistent with regulations, policies, and procedures that apply uniformly to both federally assisted and other activities of the SFA (be consistent with the use of local funds).

Notes: